S
352.44
L21FSU
JUNE 30, 2004

Montana State Library
3 0864 1003 1356 1

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

June 30, 2004

STATE DOCUMENTS COLL
2004
MONTANA STATE
1515

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

June 30, 2004

TABLE OF CONTENTS

	Page
Appointive Officials	iii
Report Distribution	iv
Transmittal Letter	1
Statement of Net Assets	2
Statement of Revenues, Expenses and Changes in Fund Net Assets	3
Statement of Revenues, Expenditures and Changes in Fund Net Assets and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis	4
Analysis of Revenues and Expenses by Product	5
Notes to the Financial Statements	6

APPOINTIVE OFFICIALS

Gerald J. LaChere, Lottery Director

L. John Onstad, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Clifford Brophy	Columbus	January 1, 2005
Donald Sterhan	Billings	January 1, 2005
Tom Keegan	Helena	January 1, 2006
Betty Wilkins	Missoula	January 1, 2006
Robert Crippen	Butte	January 1, 2007

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor - Judy Martz
Acting Director of Dept. of Administration -- Steve Bender
Legislative Auditor - Scott Seacat
President of the Senate -- Bob Keenan
Speaker of the House -- Doug Mood

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature".

The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE -- State Administration Committee

Debby Barrett, Chair
Dee Brown, Vice Chair Majority
Larry Jent, Vice Chair Minority
Norman Ballantyne
Arlene Becker
Sue Dickenson
Carol Gibson
Dan Hurwitz
Hal Jacobson
Larry Lehman
Ralph Lenhart
Alan Olson
Bernie Olson
Don Roberts
Clarice Schrumpf
Frank Smith
Pat Wagman
Jonathan Windy Boy
Cindy Younkin

HOUSE – Business & Labor Committee

Joe McKenney, Chair
Don Steinbeisser, Vice Chair Majority
Jim Keane, Vice Chair Minority
Bob Bergren
Rod Bitney
Sylvia Bookout-Reinicke
Nancy Rice Fritz
Dave Gallik
Kathleen Galvin-Halcro
Ray Hawk
Bob Lawson
Rick Maedje
Gary Matthews
Scott Mendenhall
Penny Morgan
Allen Rome
Sandy Weiss
Bill Wilson

SENATE – State Administration Committee

John Cobb, Chair
Mike Sprague, Vice Chair
Kelly Gebhardt
Carolyn Squires
Mike Wheat

SENATE – Business & Labor Committee

Dale Mahlum, Chair
Mike Sprague, Vice Chair
Sherm Anderson
Vicki Cocchiarella
Kelly Gebhardt
Bob Keenan
Sam Kitzenberg
Ken Hansen
Glenn Roush
Don Ryan
Carolyn Squires
Fred Thomas

Montana Lottery

September 2004

Montana Lottery Commission:

The Lottery will transfer $1,988,861 to the General Fund as a result of operations in the fourth quarter of fiscal year 2004 compared to $1,811,272 for the same time period last year. The total fiscal year 2004 transfer of $8,115,602 represents the highest transfer since FY1996 and the fifth highest transfer in Lottery history. For the year, scratch tickets, Powerball, Montana Cash and Hot Lotto all are experiencing increased sales, with Wild Card as the only product showing a decrease. Overall revenues are $2,043,821 or 5.9% greater than last year.

The new Qwik Tix product line, introduced in February, continues to underperform with sales of $192,749 for the quarter and a total of $436,301 for the year. We are evaluating Qwik Tix to determine if sales can be strengthened or if eventually discontinuing the product is a better option.

Direct game costs were consistent for both the quarter and the year. Net operating revenue for the quarter was 33.7% of revenue and held steady at 33.2% for the fiscal year compared to 33.0% last year.

Total operating expenses for the quarter of $990,038 were slightly lower as opposed to last year's quarterly total. Expenses were slightly up for the fiscal year at $4,121,454 compared to $4,062,406 last year, representing a 1.5% increase. However, total expenses were below the total budgeted amount.

Overall, fiscal year 2004 was a very successful year.

Sincerely,

Gerald J. LaChere

Gerald J. LaChere
Director

2525 North Montana Avenue • Helena, MT 59601-0598
Phone 406-444-LUCK (5825) • Fax 406-444-5830

MONTANA LOTTERY
STATEMENT OF NET ASSETS
June 30, 2004 and 2003
(UNAUDITED)

	Period Ended June 30, 2004	Period Ended June 30, 2003
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 297,559	$ 244,733
Receivables (Net)	1,149,380	1,248,689
Due from Primary Government	1,039	584
Due from Component Units	707	
Inventories	1,034,181	607,261
Other Current Assets	16,339	30,970
TOTAL CURRENT ASSETS	2,499,205	2,132,237
NONCURRENT ASSETS		
Computer, Furniture & Equipment	5,563,836	5,589,216
Accumulated Depreciation	(3,929,838)	(3,086,306)
Software, net of Amortization	287,500	451,785
Multi-State Receivable	1,325,275	1,742,643
TOTAL NONCURRENT ASSETS	3,246,773	4,697,338
TOTAL ASSETS	$ 5,745,978	$ 6,829,575
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 474,326	$ 475,299
Estimated Prize Liability	1,528,838	1,340,477
Due to Primary Government	209,763	35,013
Due to Component Units	279	
Transfer Obligations	1,988,861	1,811,272
Deferred Revenue	63,777	173,133
Current Portion Comp. Absences	112,270	107,343
Current Portion Long-Term Debt	0	1,109,836
Other Current Liabilities	6,000	0
TOTAL CURRENT LIABILITIES	4,384,114	5,052,373
NONCURRENT LIABILITIES		
MUSL Prize Liability	1,283,395	1,699,206
Note Payable	0	0
Accrued Compensated Absences	78,469	77,996
TOTAL NONCURRENT LIABILITIES	1,361,864	1,777,202
TOTAL LIABILITIES	5,745,978	6,829,575
NET ASSETS		
Unrestricted Net Assets	0	0
TOTAL LIABILITIES AND NET ASSETS	$ 5,745,978	$ 6,829,575

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE QUARTERS AND YEARS ENDED JUNE 30, 2004 and 2003
(Unaudited)

	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Year Ended June 30, 2004	Year Ended June 30, 2003
OPERATING REVENUES:				
Instant ticket revenue	$ 2,546,294	$ 2,565,286	$ 10,378,002	$ 10,134,734
Powerball revenue	3,781,034	3,683,376	16,972,086	15,979,707
Montana Cash revenue	1,074,020	1,216,791	4,186,863	3,961,639
Wild Card revenue	553,875	545,208	2,329,385	2,387,858
Hot Lotto/Rolldown revenue	658,479	528,723	2,435,021	2,218,556
Qwik Tix revenue	192,749	0	436,301	0
900 # Income	0	(84)	0	8,980
License, permits, and misc	1,088	1,062	2,543	4,906
Total Operating Revenues	8,807,539	8,540,362	36,740,201	34,696,380
Less Direct Game Costs:				
Instant ticket prize expense	(1,398,484)	(1,464,543)	(6,199,677)	(5,918,176)
On-line ticket prize expense	(3,065,099)	(2,764,696)	(12,480,211)	(11,644,782)
Retailer commission	(491,484)	(496,028)	(2,090,986)	(2,035,751)
Cost of tickets sold	(155,530)	(211,614)	(703,966)	(759,549)
Vendor fees	(729,754)	(703,597)	(3,066,764)	(2,899,115)
Net Operating Revenue	2,967,188	2,899,884	12,198,597	11,439,007
OPERATING EXPENSES:				
Advertising	132,400	152,350	634,098	555,402
Advertising Production	20,649	76,669	127,767	158,736
Audit Fees	4,670	35,303	43,335	58,264
Bad Debts Expense	(135)	1,021	1,829	908
Communications	25,147	20,326	89,905	83,602
Contractual Services	39,913	56,223	190,357	145,505
Depreciation and Amortization	267,116	265,324	1,064,432	1,053,362
Interest Expense	1,046	15,554	25,481	81,041
Administrative Service Fee	13,572	11,815	54,289	70,888
State Cost Recovery	2,458	2,104	10,558	8,416
Multi-State Dues	0	0	91,967	89,435
Public Relations	10,949	3,692	27,292	25,784
Other	10,237	7,567	26,383	27,126
Personal Services	346,060	345,528	1,400,905	1,382,005
Repairs and Maintenance	3,195	10,473	17,684	27,324
Supplies and Materials	79,115	67,037	192,914	160,915
Travel	6,011	7,829	13,538	27,250
Utilities and Rent	27,635	27,523	108,720	106,443
Total Operating Expense	990,038	1,106,338	4,121,454	4,062,406
Operating Income	1,977,150	1,793,546	8,077,143	7,376,601
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	12,662	17,726	43,986	77,140
Gain/Loss on sale of asset	(951)	0	(5,527)	(460)
Total Nonoperating Revenues(Expenses)	11,711	17,726	38,459	76,680
Income Before Operating Transfers	1,988,861	1,811,272	8,115,602	7,453,281
Operating Transfers In (Out) - General Fund	(1,988,861)	(1,811,272)	(8,115,602)	(7,453,281)
CHANGE IN NET ASSETS	0	0	0	0
Total Net Assets, Beginning of Period	0	0	0	0
TOTAL NET ASSETS, END OF PERIOD	0	$ 0	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET FUND ASSETS
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE YEAR ENDED JUNE 30, 2004
(Unaudited)

	Budget Fiscal Year July 1, 2003 - June 30, 2004	Actual Year Ended June 30, 2004 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Instant ticket revenue	$ $10,250,000	$ 10,378,002	101.25
Powerball revenue	16,500,000	16,972,086	102.86
Montana Cash revenue	3,600,000	4,186,863	116.30
Wild Card revenue	2,400,000	2,329,385	97.06
Hot Lotto revenue	2,100,000	2,435,021	115.95
Qwik Tix	1,600,000	436,301	27.27
License, permits, and miscellaneous	2,000	2,543	127.15
Total Revenues	36,452,000	36,740,201	100.79
DIRECT GAME COSTS:			
Prizes - instant ticket	6,047,500	6,199,677	102.52
Prizes - on-line games	13,158,000	12,480,211	94.85
Retailer commissions	2,130,000	2,090,986	98.17
Ticket cost - instant games	743,125	703,966	94.73
Ticket cost - vendor fees	3,043,575	3,066,764	100.76
Total Direct Game Costs	25,122,200	24,541,604	97.69
OPERATING EXPENSES:			
Advertising	670,035	634,098	94.64
Advertising Production	177,200	127,767	72.10
Audit Fees	25,259	43,335	171.56
Communications	84,590	89,905	106.28
Contractual Services	376,200	190,357	50.60
Interest Expense	35,740	25,481	71.30
Administrative Service Fee	54,289	54,289	100.00
State Cost Recovery	6,091	10,558	173.34
Multi-State Dues	126,492	91,967	72.71
Public Relations	18,825	27,292	144.98
Other	14,967	26,383	176.27
Personal Services	1,391,020	1,395,505	100.32
Repairs and Maintenance	29,810	17,684	59.32
Supplies and Materials	160,490	192,914	120.20
Travel	21,706	13,538	62.37
Utilities and Rent	110,080	108,720	98.76
Equipment	48,735	38,839	79.69
Total Operating Expenses	3,351,529	3,088,632	92.16
Operating Income	7,978,271	9,109,965	114.18
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	0	9,766	
Loss on Sale on Asset		(5,527)	
NET INCOME (BUDGETARY BASIS)	$ 7,978,271	$ 9,114,204	114.24
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
1. Capitalized equipment purchases	48,735	38,839	79.69
2. Adjustment for compensated absences		(5,400)	
3. Adjustment for depreciation expense	(1,039,926)	(1,064,432)	102.36
4. Bad Debts		(1,829)	
5. MUSL interest earnings	70,000	34,220	48.89
Total Reconciling Items	(921,191)	(998,602)	
NET INCOME (GAAP BASIS)	$ 7,057,080	$ 8,115,602	115.00

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE YEAR ENDED JUNE 30, 2004
(UNAUDITED)

	INSTANT	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	QWIK TIX	ADMIN
REVENUES:	$ 10,378,002	$ 16,972,086	$ 4,186,863	$ 2,329,385	$ 2,435,021	$ 436,301	$ 2,543
DIRECT GAME COSTS:							
Prize Expense	6,199,677	7,593,947	2,209,109	1,230,923	1,174,034	272,198	0
Retailer Commissions	769,323	849,070	209,377	116,487	121,771	24,958	0
Cost of Tickets Sold	703,966	0	0	0	0	0	0
Vendor Fees	850,389	1,432,513	349,603	194,504	203,324	36,431	0
NET OPERATING REVENUE	1,854,647	7,096,556	1,418,774	787,471	935,892	102,714	2,543
OPERATING EXPENSES:							
Advertising	60,368	226,965	23,063	23,063	50,962	249,366	311
Advertising Production	8,471	10,179	7,211	7,211	7,237	87,458	0
Audit Fees	0	0	0	0	0	0	43,335
Bad Debts	0	0	0	0	0	0	1,829
Communications	49,522	137	137	137	137	57	39,778
Contractual Services	11,626	1,390	1,390	1,390	1,390	52,177	120,994
Depreciation and Amortization	301,098	487,176	120,838	67,324	70,338	13,166	4,492
Interest	7,135	11,813	2,914	1,621	1,695	303	0
Administrative Service Fee	17,304	5,108	4,160	2,808	2,792	4,735	17,382
State Cost Recovery	0	0	0	0	0	0	10,558
Multi-State Dues	0	14,504	0	20,577	10,041	0	46,845
Public Relations	3,688	3,096	3,096	3,096	3,096	1,291	9,929
Other	771	0	0	0	0	624	24,988
Personal Services	446,516	131,622	107,349	72,457	72,037	122,177	448,547
Repairs and Maintenance	0	0	0	0	0	0	17,684
Supplies and Materials	17,365	5,917	5,813	5,783	5,783	4,206	148,047
Travel	0	0	0	0	0	0	13,538
Utilities and Rent	0	0	0	0	0	0	108,720
TOTAL OPERATING EXPENSES	923,864	898,107	275,971	205,467	225,508	535,560	1,056,977
OPERATING INCOME	930,783	6,198,449	1,142,803	582,004	710,384	(432,846)	(1,054,434)
NONOPERATING REVENUES (EXPENSES)							
Interest Earnings	0	0	0	0	0	0	43,986
Gain(Loss) on Sale of Asset							(5,527)
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	38,459
NET INCOME BY PRODUCT	$ 930,783	$ 6,198,449	$ 1,142,803	$ 582,004	$ 710,384	$ (432,846)	$ (1,015,975)
PROFIT AS A % OF REVENUE	8.97%	36.52%	27.29%	24.99%	29.17%	-99.21%	N/A

NOTE: THIS IS ONLY ONE YEAR'S ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting agency.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Governmental Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games, Powerball, Wild Card, Montana Cash, and Hot Lotto are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing. Qwik Tix revenue is recognized at the time of sale by the retailers.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and fiscal year ended June 30, 2004 was zero.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended June 30, 2004, promotional credits resulted in a revenue reduction of approximately $18,595 and an advertising expense reclassification of approximately $13,218. For the fiscal year ended June 30, 2004, promotional credits resulted in a revenue reduction of approximately $59,800 and a prize expense reclassification of approximately $43,308.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto and Qwik Tix prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. Qwik Tix prizes must be claimed within six months of the sale date. The unclaimed prize amounts are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all games is represented in the table below.

	Quarter Ended 6/30/04	Quarter Ended 6/30/03	Year To Date 6/30/04	Year To Date 6/30/03
Lotto	$160,278	$233,414	$1,063,705	$957,718
Scratch	176,837	124,783	232,349	345,029
TOTALS	$337,115	$358,197	$1,296,054	$1,302,747

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit with a bank and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	June 30,	
	2004	2003
Short-term investment pool	$1,766	$0
Cash on deposit with State Treasurer	285,643	234,583
Cash in revolving deposit account	10,000	10,000
Petty Cash	150	150
TOTALS	$297,559	$244,733

Reference to the State of Montana's Comprehensive Annual Financial Report would identify the level of risk associated with cash and cash equivalents in the short-term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account was $12,666 at June 30, 2004 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $1,255,555, representing amounts due the Lottery for tickets purchased by retailers. An allowance for doubtful accounts is reported as net of receivables and is based on historical perspective. As of June 30, 2004 the allowance is zero. An allowance for ticket returns is also included in the receivables amount. This allowance represents a reduction in receivables at

June 30, 2004, for estimated ticket returns. This is an estimate based on returns received to date, as well as, an estimate of tickets unsold by retailers for games that have a public sale end date prior to July 1, 2004. The allowance for ticket returns is $115,791 at June 30, 2004. The return of vendor fees related to the allowance for returns is $9,616.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $974,820 stored in the warehouse, at retailers prior to being activated by the retailer and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At quarter end, supplies inventories totaled $59,361. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets consist of the following:

	June 30,	
	2004	2003
Prepaid Expenses	11,539	26,170
Employee Advances	4,800	4,800
TOTALS	$16,339	$30,970

Transfer Obligations. The account "Transfer Obligations" is $1,988,861 payable to the General Fund at June 30, 2004.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2003	Net Leave Earned/(Used)	Balance June 30, 2004
$185,339	$5,400	$190,739

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch, Qwik Tix and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of Qwik Tix and lotto tickets sold. For the quarter

and the fiscal year ended June 30, 2004 commissions totaled $491,484 and $2,090,986 respectively.

Included in this amount are retailers' bonus commissions on tickets sold based on incremental sales of scratch tickets and Qwik Tix. During the quarter and the fiscal year ended June 30, 2004 retailers earned bonus commissions of $50,271 and $250,904 respectively.

3. MARKETING PRODUCTION EXPENSES

The Lottery has contracted with several vendors to provide marketing related services and materials. These services include media placement, creative design and layout, and media production. Those services and materials not included in the Advertising and Advertising Production expense categories are printing and ticket dispensers. The cost of these services and materials, included in Operating Expenses as Contracted Services and Supplies and Materials, are detailed below for the fiscal year ended June 30, 2004:

Printing	$54,849
Customer Display Units (CDU)	10,312
Ticket Dispensers	24,732
	$89,893

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services and supplies and materials from other state agencies. These services and materials are detailed below for the fiscal year ended June 30, 2004:

Insurance	$ 22,586
Warrant Writing Services	564
Payroll Services	986
Audit Fees	23,835
Work Study Contracts	3,044
Computer Fees	25,303
Printing	5,012
State Accounting System Support	8,714
Supplies and Materials	12,199
Mail Processing Fees	5,795
Telecommunications	24,268
Public Relations	7,000

Administrative Service Fees	54,289
SWCAP and SFCAP	10,558
Other	8,597
TOTAL	$212,750

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended June 30, 2004, the prize expense of $4,463,583 is 50.69% of net Lottery ticket revenue of $8,806,451. For the fiscal year ended June 30, 2004, the prize expense of $18,679,888 is 50.85% of net Lottery ticket revenue of $36,737,658.

6. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended June 30, 2004, the net revenue payable to the State General Fund totaled $1,988,861.

7. MULTI-STATE LOTTERY JOINT VENTURE

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, and Hot Lotto are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Receivable with a balance of $1,325,275, as of June 30, 2004 is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

Powerball Prize Reserve Account	$661,370
Powerball Unreserved Account	41,879
Powerball Set Prize Reserve Account	194,521
Wild Card Reserve Account	412,506
Hot Lotto Set Prize Reserve Account	14,999
TOTAL	$1,325,275

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. The Lottery made this payment in full as of June 1990, through an additional 2% of drawing revenue rather than making a lump sum payment. Payments made to this fund are considered a portion of prize expense associated with the game.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana and South Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

8. GAMES

Currently, the Montana Lottery games are scratch ticket games, four lotto games referred to as Powerball, Montana Ca$h, Wild Card, and Hot Lotto and four instant play/instant win games referred to as Qwik Tix.

Scratch ticket games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $10 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from $3 to $100,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of two through five.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $100,000. Players select 5 numbers from a field of 31 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $5,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Lottery introduced Hot Lotto on April 7, 2002. Hot Lotto allows players the chance to win a pari-mutuel jackpot with a guaranteed minimum of $1 million. Players choose 5 numbers from a field of 39 plus 1 Hot Ball number from a field of 19; the first 5 numbers and the Hot Ball must be matched to win the jackpot. Players can win prizes ranging from $2 to $10,000 by matching less than all 5 numbers and/or the Hot Ball. If no ticket wins the jackpot, it rolls over to the next drawing to create a progressive jackpot. Drawings are held twice weekly on Wednesday and Saturday nights.

Qwik Tix is a new product line introduced by the Lottery in February 2004. There are four games, each with its own play style and prize structure. The four games

are Lucky Numbers, a number match game; Hot Tac Toe, a tic tac toe grid; Jacks or Better, a poker game; and Montana Match, a match three symbols game. The Qwik Tix tickets are printed at the lotto terminal at the time of sale and can be redeemed immediately, with the maximum prize being $500. Each ticket costs $2 and consists of either two plays of a single Qwik Tix game or one play of a Qwik Tix game and one play of a related lotto game. The lotto games sold in this manner are exactly the same as lotto tickets sold separately and cannot be redeemed until the appropriate drawing.

9. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2001 the Montana Lottery Commission approved the award of a one-year contract with Oberthur Gaming Technologies Corp. (Oberthur) for the provision of scratch tickets; the resulting contract was signed on August 8, 2001. The contract is for one year with the option for six additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

Oberthur, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $7,500,000. The Lottery may terminate this contract by providing proper notification to Oberthur.

On-line Services. On August 18, 1998, the Lottery signed a seven-year contract with Autotote Lottery Corporation to provide an on-line gaming system and associated services beginning March 28, 1999. The contract provides for payments to be made for the purchase of an on-line gaming system including terminals and software. The Lottery paid Autotote Lottery Corporation $5,025,311 for the system on April 26, 1999. Payment under the contract is also based on 8.35% of weekly Lottery sales.

10. CONTINGENT LIABILITIES - PRIZE ANNUITIES

During fiscal year 1989, the Montana Lottery awarded four Big Spin Jackpot prizes totaling $5,000,000. The Lottery made the initial payments to the winners in the amount of $253,088 and on September 26, 1988 the Montana Lottery awarded annuities in the amount of $2,350,180 to Western National Life. Through these annuities, Western National Life makes the remaining payments to the Big Spin Jackpot winners. As of June 30, 2004 the contingent liability for future prize payments funded through the purchase of annuities was $697,500.

11. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

As of June 30, 2004 the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Lotto*America winners was $20,529,731. The combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $24,220,210.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

12. LEASES

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a noncancelable lease agreement that is effective March 2002 through

February 2007. The monthly lease payments through February 2005 are $7,366 and will increase 1.5% per year.

13. LONG-TERM DEBT

Note Payable. A contract with Autotote Lottery Corporation required the purchase of an online gaming system including terminals and software. The Lottery paid Autotote Lottery Corporation $5,025,311 for the system by entering into a loan agreement with Norwest Investment Service, now known as Wells Fargo Brokerage Services, LLC. The loan will be repaid in quarterly installments of $286,394.30 over five years. The first payment was due July 26, 1999. The interest rate on the loan is 5.12%. The loan was paid in full in April, 2004.

Maturities of Long-term Debt

Year Ended June 30,

2004	1,109,836
2005 and beyond	0
Total	$ 1,109,836

Alternative accessible formats of this document will be provided upon request.